

McDonald's Corporation
quarterly report for the
third quarter and
nine months ended
September 30, 1978



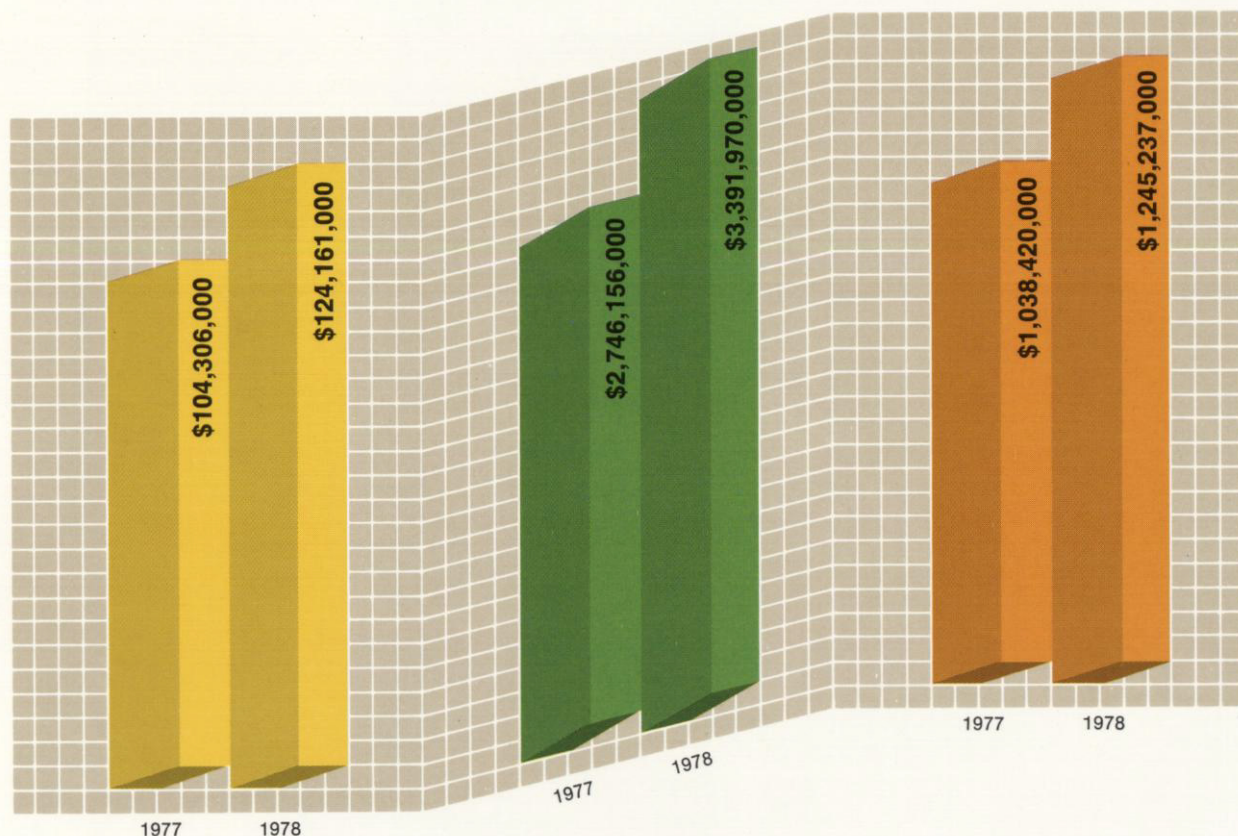
3rd Quarter Report 1978



Net income

Systemwide sales

Revenues



On the cover

McDonald's holiday gift certificates are perfect for many people on your list—the postman, newsboy, delivery persons or even Santa Claus. Gift certificates are available year 'round at McDonald's restaurants and come in a specially-designed folder during the holiday season.

McDonald's highlights for the nine months ending September 30:

Net income: \$124,161,000, up 19 percent.

Net income per share: \$3.05, up 19 percent.

Systemwide sales: \$3,391,970,000, up 24 percent.

Revenues: \$1,245,237,000, up 20 percent.

To our stockholders:

McDonald's Corporation completed the first three quarters of 1978 with new highs in net income, systemwide sales and revenues.

For the nine months ended September 30, 1978, net income was \$124,161,000, an increase of \$19,855,000 or 19 percent more than the \$104,306,000 earned in the same 1977 period. Net income per share of common stock was \$3.05, up 19 percent from the \$2.57 figure of one year ago.

Systemwide sales (net sales by all franchised, Company-owned and affiliated restaurants) reached \$3,391,970,000 for the first nine months of 1978, an increase of \$645,814,000 or 24 percent more than the \$2,746,156,000 for the first three quarters of 1977.

Revenues for the past nine months were \$1,245,237,000, up \$206,817,000 or 20 percent compared to the \$1,038,420,000 total in the same period one year ago.

Net income for the third quarter of 1978 was \$47,950,000, 20 percent above the 1977 third quarter total of \$40,045,000. Net income per share of common stock was \$1.18, compared to \$.99 in 1977, an increase of 19 percent.

Systemwide sales were \$1,257,996,000 for the 1978 third quarter, up 23 percent from \$1,025,741,000 in the same 1977 period.

Revenues for the recent quarter were \$451,509,000, 18 percent more than the \$382,258,000 total for the 1977 third quarter.

Your Company added 126 restaurants during the 1978 third quarter, bringing the world-wide total to 4,977, compared to 4,455 one year ago. At September 30, 1978, the Company had 4,317 restaurants located within the United States and 660 restaurants in 24 international countries and territories. An additional 273 restaurants were under construction at the quarter's end.

McDonald's international sales for the first nine months of 1978 were \$530,191,000, compared to \$355,966,000 in 1977, an increase of \$174,225,000 or 49 percent.

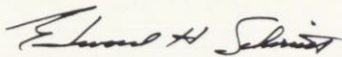
The Board of Directors declared a cash dividend in the amount of 9 cents per share on common stock, payable November 15, 1978, to stockholders of record on November 1, 1978. On an annualized basis, the dividend is equivalent to 36 cents per share. Your dividend check is enclosed with this report.



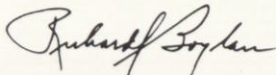
Ray A. Kroc
Senior Chairman
of the Board



Fred L. Turner
Chairman of the Board and
Chief Executive Officer



Edward H. Schmitt
President and Chief
Administrative Officer



Richard J. Boylan
Senior Executive Vice President
and Chief Financial Officer



A Shinto priest blesses the newly-opened McDonald's restaurant—a restaurant that's located in Fujisawa City, Japan.

Japan is site of McDonald's celebration

McDonald's celebrated the opening of its 5,000th restaurant at ceremonies in a new McDonald's which opened in Fujisawa City, Japan, on October 19.

Although most Japanese McDonald's are in urban areas, the new restaurant is in a resort and residential community located approximately 20 miles south of Tokyo.

Overlooking the ocean, the restaurant has 226 seats, with patio and indoor seating on two levels.

Speaking at the grand opening ceremony was U.S. ambassador to Japan and former U.S. Senate leader, Mike Mansfield. In his remarks he complimented McDonald's for its contributions not only to

the U.S. economy, but also to the Japanese economy and lifestyle.

The McDonald's restaurants in Japan are owned by a joint venture between McDonald's Corporation and McDonald's Company Japan, Ltd. President and managing director of the Japanese company is Tokyo businessman Den Fujita.

During the festivities Fred L. Turner, McDonald's chairman and chief executive officer, noted, "We are halfway around the world from where McDonald's began 23 years ago. Yet we feel very much at home in Japan—particularly because of Den Fujita. Without his expertise and the fine organization he has developed, we could not enjoy the tremendous success in Japan that we do today."

McDonald's first entered the Japanese market in 1971. At the end of the third 1978 quarter, Japan was home for 140 McDonald's restaurants.

The first McDonald's restaurant in the system opened April 15, 1955, in Des Plaines, Illinois. The openings of the 1,000th and 2,000th McDonald's, also in Des Plaines, were celebrated 13 and 17 years later, respectively. The 3,000th restaurant opening was commemorated in London, England, in 1974; and the 4,000th opening, in Montreal, Canada, in 1976.



These Japanese crewpeople are ready to greet the first customers at the Fujisawa City McDonald's restaurant. The restaurant opened October 19.

Attending grand opening ceremonies for the 5,000th McDonald's restaurant are Ray Kroc, left, senior chairman of McDonald's Corporation, and Den Fujita, president and managing director of McDonald's Company Japan, Ltd.



An Egg McMuffin makes a good breakfast anytime—on the way to work or on the way to “goin’ fishin’.” This scene is from a television commercial in McDonald’s current advertising campaign.



“There’s more in the middle of an Egg McMuffin than an egg in the middle of a muffin.”

This current McDonald’s advertising theme, featuring the Egg McMuffin, illustrates how the Company communicates to its many customers.

Like most McDonald’s commercial messages—on television and radio as well as in magazines and newspapers, this campaign concentrates on “the McDonald’s experience: food, folks and fun.” In other words, a visit to McDonald’s means good food

and more—people you’ll like meeting and fun, too.

Whether McDonald’s advertising themes center on an individual item or feature a specific meal, all are designed to highlight McDonald’s commitment to Quality, Service, Cleanliness and Value.

Most McDonald’s restaurants help extend the current advertising message by offering related in-store promotions.

12th McDonald’s All-American High School Band debuts

A total of 102 talented teenagers on parade—teenagers from places like Sitka, Alaska, and Elbow Lake, Minnesota, and Washington, D.C.—that’s the 12th annual McDonald’s All-American High School Band.

The band, made up of two of the top high school musicians from each of the 50 states and the District of Columbia, will march in Macy’s Thanksgiving Day Parade in New York City on November 23 and the Tournament of Roses Parade in Pasadena, California, on January 1. The band will also give a concert November 22 at New

York’s Carnegie Hall.

Last spring McDonald’s Corporation invited 22,000 high school band directors to nominate one or two of their best students for the band. The band’s director, Paul Lavalle, and an advisory board made up of music educators made the final selections.

Macy’s Thanksgiving Day Parade will be telecast live nationally at 10 a.m. EST on the NBC network. The network will cover the Tournament of Roses Parade beginning at 11:30 a.m. EST. Check local TV listings for additional coverage.

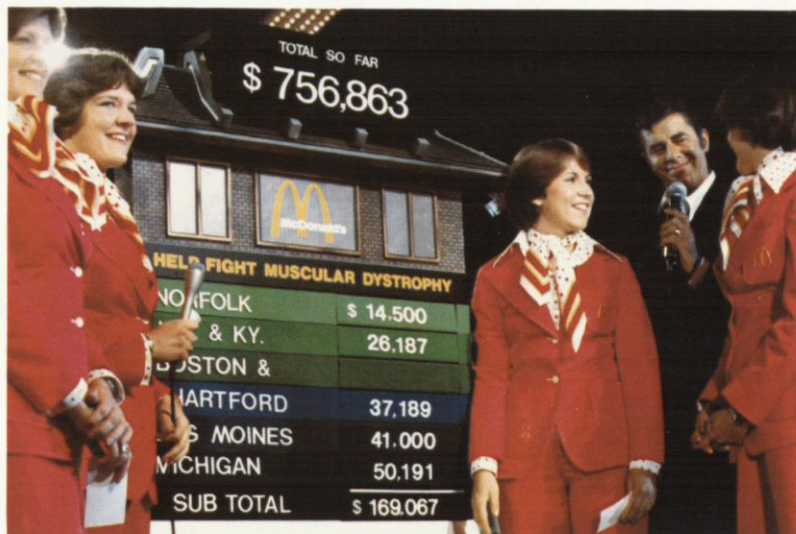


McDonald's 1978 telethon contribution tops \$1.7 million

McDonald's restaurants and their customers contributed a grand total of \$1,741,513 to the 13th annual Jerry Lewis Labor Day Telethon.

The telethon, held September 3 and 4 in Las Vegas, Nevada, raised more than \$29 million to assist the fight against muscular dystrophy, a muscle-debilitating disease which primarily affects young children.

Twenty-four McDonald's crewpeople from the United States and Canada, as well as Mike Haley, chairman of the McDonald's Operators'



On the way to announcing a total McDonald's contribution of \$1,741,513, these McDonald's crewpeople appear on the 13th annual Jerry Lewis Labor Day Telethon.

National Advertising Fund, appeared on the 21½-hour nationally-televised event, where they presented the McDonald's contributions from across North America.

This marked the seventh consecutive year that McDonald's was nationally involved in the fund-raising event.

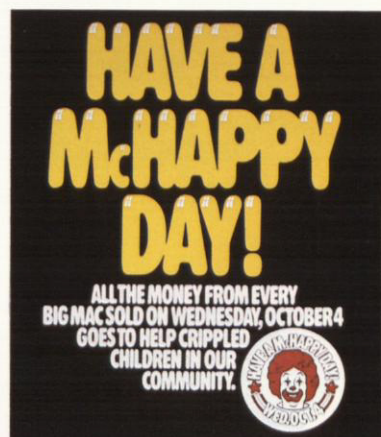
McHappy Day helps Canadian children

October 4 was McHappy Day in Canada, a day when all 279 McDonald's restaurants in that country donated total sales of Big Mac sandwiches to local community organizations that assist crippled children.

The event, in its second year, raised nearly \$690,000,

compared to \$465,000 in 1977.

McHappy Day was supported by a complete advertising campaign, and record-breaking crowds visited the restaurants. Each restaurant invited local VIPs—media personalities, government officials and civic leaders—to work alongside McDonald's head office employees and restaurant crewpeople during the day.



Community relations program focuses on immunization

Of the 52 million American children under 15 years, approximately 20 million are not adequately immunized against seven preventable childhood diseases—polio, measles, rubella, whooping cough, tetanus, diphtheria and mumps. These statistics come from the U.S. Department of Health, Education and Welfare.

As a result, the reported incidence of the diseases has steadily increased in recent years.

McDonald's is doing something to reverse the trend. Together with the March of Dimes, the Company recently funded two films which discuss the importance of immunization.

The first, aimed at children, is called "Good Shot"; its objective is to create a positive attitude toward immunization.

The second film, geared to adults, is entitled "Say Yes"

and features Lorne Greene as its spokesman. It makes parents aware of the immunization problem and informs them of the importance of disease immunity.

Consultants on the films were the American Academy of Pediatrics, staff members at the U.C.L.A. Department of Pediatrics and the March of Dimes.

The films are available through many community health organizations and participating McDonald's restaurants.

A number of McDonald's markets across the country—including entire cities and even entire states—have become involved in immunization programs. Many have extended the film message through such in-restaurant items as "immunization reminder" posters, tray liners printed with "immunization schedules" and "good patient certificates"



Koala Wally is the narrator of "Good Shot," a film which teaches children the positive aspects of immunization. The film is one of two on immunization which McDonald's and the March of Dimes recently funded.

(complete with Be-Our-Guest coupons) for inoculated youngsters.

The immunization program reflects McDonald's special philosophy of community involvement—an involvement that reaches into the neighborhoods and communities and focuses on local residents and their concerns.

Direct line keeps stockholders informed

Want to know more about McDonald's—about new markets, restaurant openings, the latest financial data?

The Corporation has a spe-

cial information line—a direct-dial telephone line which plays a recorded message telling recent news about the Company. The number for the service, which is open 24 hours a day, seven days a week, is 312/887-6543.

The Company changes the message twice each month.

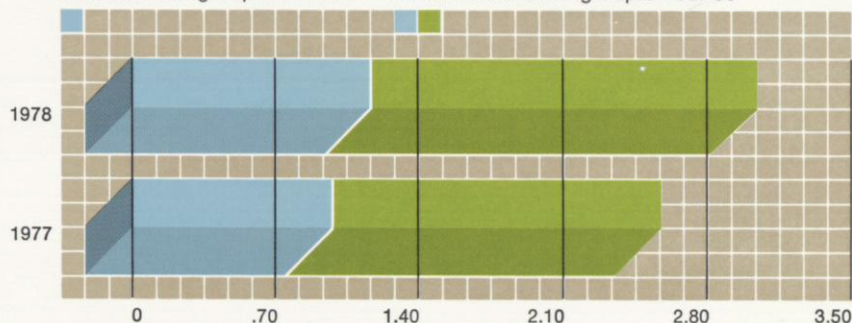
Consolidated statement of income

	(Dollars in thousands, except per share amounts)			
	Nine months ending September 30		Quarter ending September 30	
	1978	1977	1978	1977
Revenues:				
Sales by Company-owned restaurants	\$ 961,584	\$ 809,563	\$349,056	\$299,207
Revenues from franchised restaurants	260,895	210,175	96,544	78,478
Gains on sales of Company-owned restaurant businesses	10,732	8,771	1,753	1,070
Interest and other income—net	12,026	9,911	4,156	3,503
Total revenues	1,245,237	1,038,420	451,509	382,258
Costs and expenses:				
Company-owned restaurants	795,225	655,467	284,969	241,267
Expenses directly applicable to revenues from franchised restaurants	34,629	28,177	12,188	9,806
General, administrative and selling expenses	127,920	108,172	45,521	38,664
Interest expense	47,307	41,560	16,086	14,025
Total costs and expenses	1,005,081	833,376	358,764	303,762
Income before provision for income taxes	240,156	205,044	92,745	78,496
Provision for income taxes	115,995	100,738	44,795	38,451
Net income	\$ 124,161	\$ 104,306	\$ 47,950	\$ 40,045
Net income per share of common stock	\$ 3.05	\$ 2.57	\$ 1.18	\$.99

Earnings per share periods ending September 30

in dollars

Quarter ending September 30 Nine months ending September 30



Consolidated balance sheet

	(In thousands of dollars)	
	September 30, 1978	and 1977
Assets		
Current assets:		
Cash and certificates of deposit	\$ 68,555	\$ 43,101
Short-term investments	66,157	80,234
Accounts and notes receivable	48,205	38,043
Inventories	13,063	12,090
Prepaid expenses and other current assets	20,262	18,842
Total current assets	216,242	192,310
Other assets and deferred charges	71,835	62,053
Property and equipment, at cost	1,801,384	1,485,183
Less accumulated depreciation and amortization	295,073	233,862
Net property and equipment	1,506,311	1,251,321
Intangible assets, net	43,008	41,952
Total assets	<u>\$1,837,396</u>	<u>\$1,547,636</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts and notes payable	\$ 101,889	\$ 106,488
Income taxes	35,357	30,634
Other accrued liabilities	44,130	34,614
Current maturities of long-term debt	43,085	27,749
Total current liabilities	224,461	199,485
Long-term debt	739,761	642,417
Security deposits by franchisees	48,586	42,933
Deferred income taxes	61,975	51,655
Stockholders' equity:		
Common stock, no par value		
Authorized—100,000,000 shares		
Issued—40,597,835 shares in 1978 and 40,538,084 shares in 1977	4,514	4,508
Additional paid-in capital	92,333	89,893
Retained earnings	668,966	521,716
	765,813	616,117
Less treasury stock, at cost—66,033 shares in 1978 and 101,000 shares in 1977	3,200	4,971
Total stockholders' equity	762,613	611,146
Total liabilities and stockholders' equity	<u>\$1,837,396</u>	<u>\$1,547,636</u>

Consolidated statement of retained earnings

	<i>(In thousands of dollars)</i>			
	Nine months ending September 30		Quarter ending September 30	
	1978	1977	1978	1977
Balance at beginning of period, as previously reported		\$432,187		\$492,426
Restatement for capitalization of leases		(8,704)		(8,734)
Balance at beginning of period, as restated	\$554,106	423,483	\$621,016	483,692
Net income	124,161	104,306	47,950	40,045
Cash dividends	(9,301)	(6,073)		(2,021)
Balance at end of period	<u>\$668,966</u>	<u>\$521,716</u>	<u>\$668,966</u>	<u>\$521,716</u>

Consolidated statement of changes in financial position

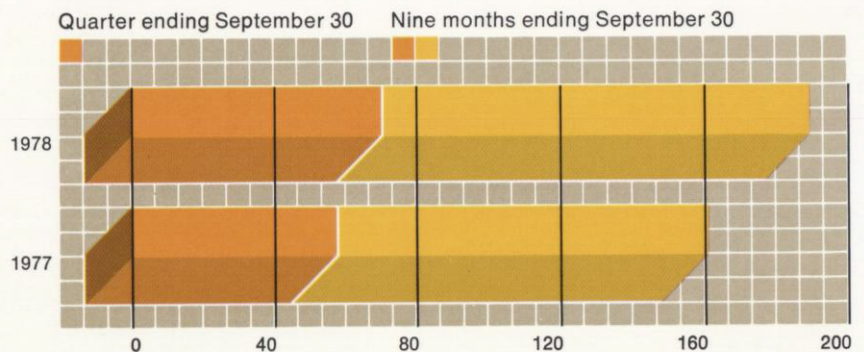
	<i>(In thousands of dollars)</i>			
	Nine months ending September 30		Quarter ending September 30	
	1978	1977	1978	1977
Source of working capital:				
Operations—				
Net income	\$124,161	\$104,306	\$ 47,950	\$40,045
Items not involving working capital	65,249	55,825	22,640	18,721
Total from operations	189,410	160,131	70,590	58,766
Additions to long-term debt	226,715	85,662	131,858	18,836
Property and equipment disposals	11,540	11,229	2,774	4,306
Security deposits by franchisees	4,544	3,609	1,513	1,400
Total source of working capital	432,209	260,631	206,735	83,308
Use of working capital:				
Additions to property and equipment	237,899	198,845	88,538	79,031
Non-current assets of businesses purchased	5,294	18,254	1,222	9,129
Notes receivable due after one year	12,131	9,361	1,878	2,996
Long-term debt reductions	172,772	40,124	115,653	4,889
Cash dividends	9,301	6,073		2,021
Purchase of treasury stock		4,086		4,004
Other changes in financial position—net	(3,708)	(8,265)	(4,506)	(9,694)
Total use of working capital	433,689	268,478	202,785	92,376
Increase (decrease) in working capital	<u>\$ (1,480)</u>	<u>\$ (7,847)</u>	<u>\$ 3,950</u>	<u>\$ (9,068)</u>

Two year quarterly comparison

	<i>(Dollars in thousands, except per share amounts)</i>					
	Quarter ending September 30		Quarter ending June 30		Quarter ending March 31	
	1978	1977	1978	1977	1978	1977
Restaurants in operation at end of quarter:						
Operated by franchisees	3,426	3,029	3,340	2,959	3,239	2,881
Operated by the Company	1,375	1,288	1,347	1,244	1,343	1,221
Operated by affiliates	176	138	164	133	154	123
Total restaurants	4,977	4,455	4,851	4,336	4,736	4,225
Restaurant sales:						
Operated by franchisees	\$ 849,783	\$ 694,922	\$ 793,073	\$ 639,418	\$ 645,726	\$ 526,598
Operated by the Company	349,056	299,207	332,971	278,892	279,557	231,464
Operated by affiliates	59,157	31,612	43,477	23,077	39,170	20,966
Systemwide sales	\$1,257,996	\$1,025,741	\$1,169,521	\$941,387	\$964,453	\$779,028
Consolidated statement of income highlights:						
Total revenues	\$ 451,509	\$ 382,258	\$ 430,505	\$ 357,127	\$ 363,223	\$ 299,035
Income before provision for income taxes	\$ 92,745	\$ 78,496	\$ 87,052	\$ 74,259	\$ 60,359	\$ 52,289
Net income	\$ 47,950	\$ 40,045	\$ 45,186	\$ 37,939	\$ 31,025	\$ 26,322
Net income per share of common stock	\$ 1.18	\$.99	\$ 1.11	\$.94	\$.77	\$.65

Working capital generated from operations periods ending September 30

in millions of dollars



Financial comments

Basis of presentation

The accompanying consolidated financial statements and financial comments do not include all of the disclosures made in the Company's annual report to stockholders, but, in the opinion of the Company, include all adjustments necessary for a fair presentation.

Restatement of prior periods' financial statements

The consolidated financial statements and other data herein for 1977 have been restated from amounts previously reported to retroactively adopt the provisions of Statement of Financial Accounting Standards No. 13, Accounting for Leases. The building portion of capitalized leases as defined in the Statement is now capitalized and a related liability is reflected in the financial statements.

Due to the retroactive capitalization of these leases, net income has been decreased by \$78,000 for the first nine months of 1977 and \$48,000 for the third quarter of 1977 from the amounts previously reported. Net income per share for the first nine months of 1977 and the third quarter of 1977 remains unchanged. From amounts previously reported in the 1977 third quarter report, net property and equipment has been increased \$83,980,000 and long-term debt has been increased \$98,222,000 at September 30, 1977 due to the restatement.

Restaurant acquisitions and dispositions

The Company purchased restaurant businesses from franchisees and sold restaurant businesses to franchisees as follows:

	Purchased		Sold
	Number of restaurant businesses	Approximate purchase price	Number of restaurant businesses
<i>(Dollars in thousands)</i>			
Nine months ending			
September 30, 1978	20	\$ 5,294	61
1977	59	\$18,254	71
Quarter ending			
September 30, 1978	4	\$ 1,222	10
1977	30	\$ 9,129	16

The number of restaurants sold in the nine months ending September 30, 1978 and 1977 includes 33 and 35 restaurants, respectively, which were previously leased to the purchasers. The corresponding number of restaurants in the third quarter 1978 and 1977 were 4 and 9, respectively.

Results of operations of restaurant businesses purchased have been included in the consolidated statement of income since dates of acquisition. Results of operations of such businesses for periods prior to purchase and the results of operations of restaurant businesses sold, prior to their sale dates, were not material to the consolidated financial statements.

Management analysis

The Company again achieved record highs in Systemwide sales, Revenues and Net income for the periods ended September 30, 1978. This continued growth is reflected in all elements of the results of operations, as the following table and discussion illustrate.

	1978 increase over 1977			
	Nine months ending September 30		Quarter ending September 30	
	Amount	%	Amount	%
<i>(Dollars in thousands)</i>				
Systemwide sales	\$645,814	24	\$232,255	23
Revenues—				
Sales by Company-owned restaurants	152,021	19	49,849	17
Revenues from franchised restaurants	50,720	24	18,066	23
Other revenues	4,076	22	1,336	29
Total revenues	206,817	20	69,251	18
Costs and expenses—				
Company-owned restaurants	139,758	21	43,702	18
Expenses directly applicable to revenues from franchised restaurants	6,452	23	2,382	24
General, administrative and selling expenses	19,748	18	6,857	18
Interest expense	5,747	14	2,061	15
Total costs and expenses	171,705	21	55,002	18
Income before provision for income taxes	35,112	17	14,249	18
Provision for income taxes	15,257	15	6,344	17
Net income	19,855	19	7,905	20

The increase in Systemwide sales is attributable to new restaurants opened from January 1, 1977 through September 30, 1978 and to higher average sales for existing restaurants. Although price increases do contribute to growth in revenues, their impact is not practicable to determine due to the lack of uniform pricing throughout the system and variances in product mix.

Costs and expenses related to Company-owned restaurants had a greater percentage increase than Sales by Company-owned restaurants due principally to a substantial escalation of meat costs and higher labor costs attributable to an increase in the minimum wage.

The percentage increase in Revenues from franchised restaurants is greater than the increase in Sales by Company-owned restaurants primarily because of the greater percentage increase in the number of franchised restaurants during the period. From January 1, 1977 to September 30, 1978, the number of Company-owned and operated restaurants increased 13 percent compared to a 21 percent increase in the number of restaurants operated by independent franchisees.

The increase in General, administrative and selling expenses over the comparable year ago periods is indicative of the Company's expanded level of operations. A greater number of employees and a growing international market have both contributed to increases in General, administrative and selling expenses.

Interest expense is also higher, resulting from additional financing for new restaurant properties acquired over the last twenty-one months and reflecting the Company's continued emphasis on owning property versus leasing. The Company feels that ownership of real estate will yield long-term benefits, among which are the anticipated continuation of appreciation in real estate values and the contra-inflationary advantages of owning versus leasing.

A comparison of the third quarter 1978 operating results with the second quarter 1978 generally reflects patterns of prior years and shows no significant variations.

Foreign operations

The number of restaurants located outside the United States and their sales are summarized as follows:

Number of restaurants at September 30, 1978	and 1977
Operated by the Company	250 220
Operated by franchisees	234 174
Operated by affiliates	176 138
	<u>660</u> <u>532</u>

Restaurant sales	Nine months ending September 30		Quarter ending September 30	
	1978	1977	1978	1977
<i>(In thousands of dollars)</i>				

Operated by the Company	\$203,137	\$162,120	\$ 74,974	\$ 61,014
Operated by franchisees	185,250	118,191	73,445	48,600
Operated by affiliates	141,804	75,655	59,157	31,612
	<u>\$530,191</u>	<u>\$355,966</u>	<u>\$207,576</u>	<u>\$141,226</u>

Included in the consolidated statement of income are foreign currency exchange gains (losses) of \$(341,000) and \$777,000 for the nine months ending September 30, 1978 and 1977, respectively. Such amounts for the third quarter 1978 and 1977 were gains (losses) of \$(948,000) and \$224,000, respectively.

Property and equipment

In order to properly match costs with revenues, interest on borrowings, rent charges and real estate taxes related to the development of new restaurant property are capitalized through the development period.

Interest capitalized was \$3,636,000 and \$2,222,000 for the nine months ending September 30, 1978 and 1977, respectively. For the third quarter, such amounts were \$1,527,000 in 1978 and \$926,000 in 1977. If all interest had been expensed when incurred, net income as reported would have been

reduced by the following amounts: \$1,500,000 and \$980,000 for the nine months ending September 30, 1978 and 1977, respectively; and \$680,000 and \$410,000 for the third quarter 1978 and 1977, respectively. These amounts are net of amortization of capitalized interest and related income tax effects.

Rent and real estate taxes capitalized were \$1,900,000 and \$1,380,000 for the nine months ending September 30, 1978 and 1977, respectively. For the third quarter, such amounts were \$620,000 in 1978 and \$486,000 in 1977.

Net income per share

Net income per share is computed based on the average number of common and common equivalent shares outstanding during each period: 40,657,958 and 40,548,292 in the nine months ending September 30, 1978 and 1977, respectively; 40,760,651 and 40,603,712 in the third quarter 1978 and 1977, respectively.

**McDonald's Corporation
McDonald's Plaza
Oak Brook, Illinois 60521**

The following trademarks and service marks referred to in this report are owned by McDonald's Corporation:

Big Mac
Egg McMuffin
McDonald's
McDonald's All-American
High School Band

